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# CURRENT INTELLIGENCE WEEKLY SUMMARY



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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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## THE WEEK IN BRIEF

## PART I

OF IMMEDIATE INTEREST

## SUPREME SOVIET HEARS KHRUSHCHEV'S REPORT . . . . . Page 1

The USSR Supreme Soviet on 7 May heard Khrushchev's report on the planned reorganization of Soviet industrial administration. Khrushchev's recommendations generally followed his "theses" published last March. He called for abolition of fewer of the central industrial ministries than he had previously proposed, however, and recommended pushing the reorganization through to completion in two months. In personnel shifts associated with the reorganization, Mikhail Pervukhin has been appointed head of the Ministry of Medium Machine Building--responsible for nuclear production--and Iosef Kuzmin, a relatively unknown central party apparatus worker, chief of the new State Planning Commission, the main instrument of central control of the economy. [REDACTED]

## MIDDLE EAST DEVELOPMENTS . . . . . Page 4

Jordan: Deputy Prime Minister Rifai, the actual leader of the cabinet, is confident of his government's ability [REDACTED]

Aqaba: A test passage of an Israeli-flag vessel through the Gulf of Aqaba to Eilat will probably take place at the end of May or early in June. The reinforcement of French naval units in Somaliland may indicate that France intends to assist Israel if Egypt or Saudi Arabia attempts to prevent passage.

Israel: UN Secretary General Hammarskjold went to Israel for talks despite Prime Minister Ben-Gurion's refusal in advance to discuss the topics Hammarskjold wanted to take up.

Suez: Britain is evidently prepared to accept Egypt's conditions for operation of the Suez Canal. France still opposes any settlement implying acceptance of Egypt's terms, but there are indications that a compromise is under consideration. [REDACTED]

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**THE ITALIAN GOVERNMENT CRISIS . . . . . Page 8**

The most likely successor to the Segni cabinet, which resigned on 6 May after Vice Premier Saragat had withdrawn his Democratic Socialist Party, is an exclusively Christian Democratic government. This would probably be in effect a caretaker government pending elections which are now scheduled for next spring but may be held this fall. [REDACTED]

**THE HONDURAN-NICARAGUAN DISPUTE . . . . . Page 9**

Public opinion remains inflamed in both Honduras and Nicaragua, despite the temporary cease-fire agreement negotiated by a special OAS committee on 5 May. Charges and countercharges of violations of the agreement are aggravating the situation and hampering the committee's efforts to work out a plan for troop withdrawals acceptable to both sides. [REDACTED]

**PART II****NOTES AND COMMENTS****EGYPT'S FINANCIAL SITUATION REMAINS PRECARIOUS . . . . . Page 1**

Egypt's failure since last August to market a large part of its cotton and a decrease in foreign trade generally have caused a further deterioration in the country's precarious financial situation. There is growing inflation, a shortage of some goods--particularly imported items--and a lack of foreign exchange. Trade with the Soviet bloc reached 56 percent of Egypt's total exports and 35 percent of its imports in January and February, and Egypt is becoming increasingly dependent on the bloc. [REDACTED]

**DISTURBANCES IN POLAND . . . . . Page 2**

Strikes and demonstrations have recently occurred in scattered areas of Poland; a major riot at Jaroslaw involved troops and townspeople. Black-marketeering and other illegal financial activities have become widespread since October. The regime may be compelled by these circumstances to reconsider some of its liberal policies, as it cannot afford serious deterioration of its control without risking Soviet intervention. [REDACTED]

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**NUCLEAR CONTROVERSY STIRS BONN GOVERNMENT . . . . . Page 4**

The rapid development of the nuclear arms question as a major issue in the impending West German national election has produced a split in the Adenauer cabinet. Defense Minister Strauss reportedly is insisting that immediate steps be taken to acquire nuclear weapons, while the government generally has chosen to back down on its public demands for weapons parity within NATO, placing emphasis on the need for nuclear disarmament. Moscow has been adding fuel to the fire by diplomatic notes and propaganda warnings of grave consequences if West Germany acquires nuclear arms. [REDACTED]

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**BRITAIN AND THE "FOURTH COUNTRY" NUCLEAR WEAPONS PROBLEM . Page 5**

In order to preserve its position as the only producer of nuclear weapons in Western Europe, Britain is looking for ways to prevent additional countries, especially West Germany, from making such armaments. Skeptical that any disarmament agreement would achieve this, Britain may support a nuclear weapons pool under NATO, and British officials have urged that the United States consider supplying nuclear warheads to "other countries" on condition that the recipients forswear programs of their own. [REDACTED]

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**CYPRUS . . . . . Page 6**

The Greek government now seems confident that Archbishop Makarios will co-operate in a policy aimed at independence for Cyprus under some form of trusteeship--probably NATO. Turkey might ultimately accept such a settlement, but only if treaty guarantees against union with Greece--enosis--were included. Meanwhile, Britain is proceeding with a reassessment of the island's strategic importance in the light of London's plans for military retrenchment. [REDACTED]

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**COLOMBIAN POLITICAL CRISIS . . . . . Page 6**

Colombian president Rojas' authoritarian policies, and particularly his 8 May "re-election" for the 1958-1962 term, have provoked opposition in various parts of Colombia and may result in his being replaced shortly by a military junta. Serious discontent is increasingly evident among students, church officials, and some business groups, and is reportedly spreading to the military, the principal prop of Rojas' "Government of the Armed Forces." [REDACTED]

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**"GUIDED DEMOCRACY" IN INDONESIA . . . . . Page 8**

President Sukarno has imposed his concept of "guided democracy" on Indonesia by an emergency decree establishing his much-heralded national advisory council. Communists and pro-Sukarno left-wingers and extreme nationalists probably will predominate in its membership. In the provinces, sentiment against Sukarno and the central government will probably intensify. The arrest in Djakarta of the South Sumatran "commissioner" and 10 members of the South Sumatran governing council will further stimulate a desire for a final break with Djakarta. [REDACTED]

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**OVERSEAS CHINESE RIOT IN SOUTH VIETNAM . . . . . Page 8**

The rising resentment among Overseas Chinese in South Vietnam against Taipei's inability to protect them from the mandatory naturalization decreed by the Vietnamese government recently led to rioting at the Chinese Nationalist legation in Saigon. With its prestige at stake, the Chinese Nationalist government is attempting desperately to intercede with Saigon, but without success to date. [REDACTED]

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**POSSIBLE POLITICAL CRISIS IN LAOS . . . . . Page 9**

Laotian prime minister Souvanna Phouma's handling of the Pathet Lao negotiations reportedly has aroused widespread dissatisfaction in the National Assembly. Official circles in Vientiane believe Souvanna may resign or be overthrown after the assembly opens on 11 May. Formation of a new cabinet would probably require prolonged negotiations, which would impair the effectiveness of government operations and would facilitate subversive maneuvering by the Pathet Lao. [REDACTED]

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**DUAL CITIZENSHIP PROBLEM IN MALAYA INDEPENDENCE TALKS . . Page 10**

Chief Minister Abdul Rahman's main difficulty in negotiating final details for Malaya's constitution in London, beginning on 13 May, will center on the critical question of dual citizenship. This proviso is being demanded by Britain for the many non-Malay residents--mostly Chinese--who are British citizens of other colonies or of Commonwealth countries. This issue is tied to the larger problem of racial antagonisms in the federation. [REDACTED]

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**JAPANESE PRIME MINISTER'S SOUTHEAST ASIAN TRIP . . . . . Page 11**

Prime Minister Kishi--the first Japanese government head to visit Southeast and South Asia since World War II--will probably be received cordially since no sensitive issues remain between Japan and the nations he will visit. He probably feels that first-hand knowledge of the area will be useful in negotiating with the United States on Southeast Asian economic development when he visits Washington in June. [REDACTED]

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**INCREASING THAI CONTACTS WITH COMMUNIST CHINA . . . . . Page 12**

The recent acceleration of "unofficial" Thai contacts with Communist China has been tacitly encouraged, if not actively promoted, by the Bangkok government. Although Thai leaders still insist that formal recognition must await Peiping's admission to the UN, these contacts indicate a desire for some "normalization" of relations with Communist China. Peiping is already seeking to exploit this opening in the hope of expanding its influence. [REDACTED]

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**CHINESE COMMUNISTS REAFFIRM LIBERALIZATION POLICY . . . . . Page 13**

The Chinese Communists have given new impetus to the liberalization campaign initiated a year ago, emphasizing persuasion rather than coercion in carrying out Peiping's programs, and this policy is being followed in trying to resolve present "contradictions" between the people and the leadership. Peiping declares that its policy to "let all flowers bloom and all schools of thought contend" is proving successful and will not be reversed. [REDACTED]

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**SOUTH KOREA PREPARES FOR NEW POLITICAL REPRESSION . . . . . Page 14**

The plan of the South Korean government to revitalize "neighborhood associations" foreshadows increasing reliance on coercion and intimidation to assure the continued supremacy of the Liberal Party in preparation for 1958 assembly elections. Despite official assurances to the contrary, the strengthened associations probably will work with the police to harass opposition sympathizers. [REDACTED]

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**BULGANIN SAYS SOVIET ECONOMY CAN OVERTAKE AMERICAN IN 40 YEARS . . . . . Page 15**

Premier Bulganin told a group of American women visitors on 5 May that the Soviet "economy could overtake" that of the United States "within 40 years." Heretofore, the usual formulation has been the vague "shortest possible historical time period." [REDACTED]

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**PART III****PATTERNS AND PERSPECTIVES****SOCIALIZATION IN COMMUNIST CHINA . . . . . Page 1**

The Chinese Communists, having moved slowly for several years toward complete socialization of the economy, ordered a forced march toward this goal in mid-1955. By the end of 1956, over 96 percent of the nation's peasants were enrolled in co-operatives, and industrial and commercial business was transacted largely through socialist organizations. While the economic results have not been entirely satisfactory to Peiping, the Chinese Communists are boasting that their method of "peacefully" transforming capitalists into wage earners is a unique contribution to Marxist theory and practice. [REDACTED]

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**WEST GERMAN ACTIVITIES IN THE MIDDLE EAST AND SOUTH ASIA . Page 4**

The past few months have seen an acceleration in the continuing effort by West German government leaders and businessmen to expand the Federal Republic's commercial and diplomatic influence in the Middle East and South Asia. Total trade between West Germany and the area amounted to \$1.30 billion in 1956, representing 9 percent of Germany's world trade. The level of prewar German trade with these countries has been surpassed, and sizable long-term financial investments and technical aid programs have been launched. [REDACTED]

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**MEETINGS OF HIGH-LEVEL SINO-SOVIET BLOC LEADERS. . . . . Page 7**

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A program of visits among top-level Sino-Soviet bloc leaders, begun after the crises in Hungary and Poland last fall, is apparently scheduled to continue on an intensive basis during the coming months. Moscow initiated the exchange of visits probably with the aim of reinforcing Soviet ideological and political influence over the Satellites. Chinese Communist participation in the program, however, has given much encouragement to the Gomulka regime in Poland, the least orthodox and most independent of the European Satellites. [REDACTED]

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**THE NAGA REBELLION ON INDIA'S NORTHEASTERN FRONTIER . . . Page 8**

A concerted military effort by the Indian government during the past year to suppress the armed revolt of the Naga tribes along India's northeastern frontier has not succeeded in bringing an end to insurgent activities which have been in progress since 1952. The Indian government and the Naga leaders last month opened negotiations which may lead to a compromise increasing the tribes' autonomy within the framework of the Indian constitution.

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**PART I****OF IMMEDIATE INTEREST****SUPREME SOVIET HEARS KHRUSHCHEV'S REPORT**

The USSR Supreme Soviet on 7 May heard Khrushchev's report on the planned reorganization of the administration of Soviet industrial and construction activity. Khrushchev's recommendations generally followed his theses published last March, but he called for abolition of fewer of the central industrial ministries than he had previously proposed. The Supreme Soviet will formally approve the plan, possibly with minor amendments, at the current session, probably early next week. The only other item on the agenda is the routine approval of decrees promulgated since the last meeting of the Supreme Soviet in February.

Under the plan proposed by Khrushchev, about 20 industrial ministries are to be abolished, and others are to be drastically modified. The planning, statistical and control organs are to be revamped and strengthened, and 92 regional councils of national economy established to assume operational control of the USSR's industrial enterprises.

Khrushchev urged that the reorganization be pushed through to completion during May and June. Deputy Premier Lazar Kaganovich had told newsmen on 19 April that the reorganization "will be completed by next winter."

The speed with which Khrushchev wants the project carried out will temporarily intensify the confusion and dislocations which the change is bound to evoke, but the retention of

important ministries for the "leading links" of production--at least for a transition period--may help to alleviate some of these difficulties. The dislocations apparently are seen as less of an evil than permitting the uncertainty surrounding the ministries, and other organs scheduled to be abolished or reorganized, to continue. Soviet sources have already noted "how much the leadership of industry by the ministries which are awaiting dissolution has been weakened in recent days."

The Soviet leaders did not wait for formal approval before starting to carry out personnel shifts associated with the reorganization. Presidium member Mikhail Pervukhin was appointed on 2 May as minister of medium machine building, the ministry currently operating the Soviet atomic energy program. The short-range planning committee which he headed after December is scheduled to be abolished. Pervukhin's appointment to a single, though important, ministry may reflect dissatisfaction with his performance in drawing up the modest 1957 plan which scheduled the rate of growth at a level below that estimated by many observers to be required to meet the 1960 Five-Year Plan goals.

The biggest plum in the reorganization has fallen to an obscure behind-the-scenes party administrator, Iosif Kuzmin. Kuzmin was appointed on 4 May as chairman of the USSR State Planning Commission (Gosplan) which is to have wide

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responsibilities and powers, not only in national planning but also in co-ordinating and supervising the activities of the councils of national economy. There may have been disagreement among the top leaders over this appointment, with Kuzmin a compromise choice for the job. However, the fact that he was brought in from the party apparatus--the administrative organization within the central committee secretariat under Khrushchev--suggests that Khrushchev has put a trusted lieutenant in this key post in order to strengthen his influence over the reorganized economic system. Kusmin's predecessor, N. K. Baibakov, was appointed head of RSFSR Gosplan, a job of major importance since the RSFSR has 68 of the proposed 92 economic regions.

In his report to the Supreme Soviet, Khrushchev proposed retaining in Moscow those ministries producing military end items and chemicals, operating the atomic energy program,

constructing and operating electric power stations, and constructing transport facilities--jurisdiction over some others, principally extractive, being transferred to appropriate union republics. This appears to be a qualification of the theses in which he had suggested that all industrial ministries be abolished. However, the full extent of this apparent alteration of the plan is not yet clear.

Khrushchev argues that these ministries should be divested of responsibility for direct management of their enterprises and that the councils of national economy of the economic administrative districts should assume that responsibility. The retained ministries should concern themselves with planning functions and general technical control, apparently acting as co-ordinating intermediaries between Gosplan and their former enterprises. Contrary to Khrushchev's report, however, the Soviet leaders may maintain central operational, as well as planning, control over defense production and the atomic energy program.

Khrushchev does not appear really convinced that any industrial ministries should be retained at the republic level but he is certain that if they are retained they should be located in cities nearest the principal centers of their activity. He emphasizes that the

**PRESENT USSR INDUSTRIAL MINISTRIES****TO BE RETAINED AT USSR LEVEL**

Aviation Industry  
Chemical Industry  
Defense Industry  
(including General Machine Building)  
Electric Power Stations  
(including Construction of Electric Power Stations)  
Medium Machine Building  
Radiotechnical Industry  
Shipbuilding  
Transport Construction

**TO BE RETAINED AT REPUBLIC LEVEL**

Coal Industry  
Construction  
Ferrous Metallurgy  
Lumber Industry  
Nonferrous Metallurgy  
Oil Industry  
Paper & Wood Processing Industry

**TO BE ABOLISHED**

Automobile Industry  
Building Materials Industry  
Construction & Road Construction  
Machinery Industry  
Construction of Coal Industry Enterprises  
Construction of Metallurgical & Chemical Industry Enterprises  
Construction of Oil Industry Enterprises  
Electrotechnical Industry  
Fish Industry  
Food Products Industry  
Grain Products  
Heavy Machine Building  
Instrument Making & Means of Automation  
Light Industry  
Machine Building  
Machine Tool & Tool Industry  
Meat & Dairy Products Industry  
Tractor & Agricultural Machine Building  
Transport Machine Building  
Urban & Rural Construction

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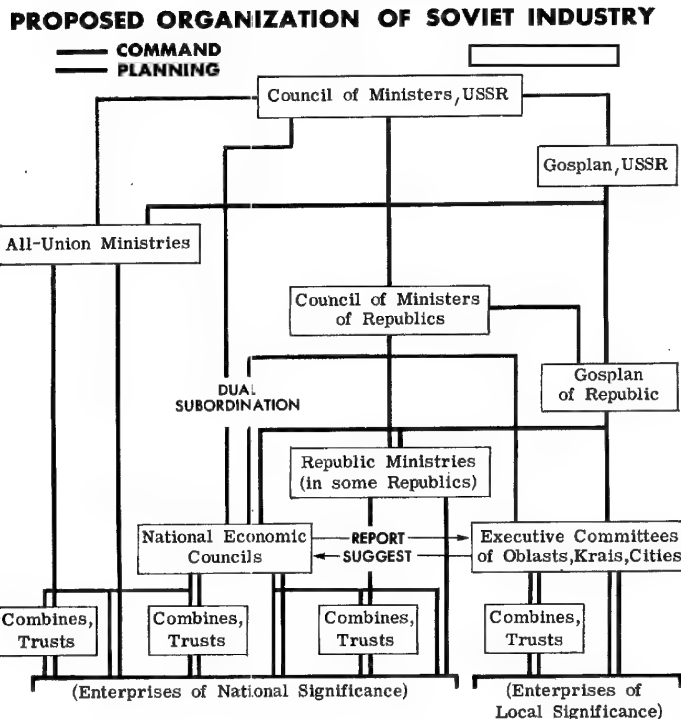
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question is one for the Supreme Soviet to decide.

In addition to the 68 economic regions proposed for the RSFSR, there are to be 11 in the Ukraine, and one each in the other republics--a total of 92. Their boundaries will correspond for the most part to existing administrative units, thus enabling the Soviet leaders to secure maximum use of the already existing party and local government structures. The creation of a large number of small units will bring the "center of gravity" of administration close to operations, and is intended to promote specialization and foster local initiative--at the cost of burdening Moscow with new problems and increasing the complexity of regulating relations between economic districts. It would at the same time make the councils of national economy more responsive to local pressures.

Khrushchev repeated his warning against permitting local regional interests from becoming paramount to national "state interests," cautioning especially against any attempt to foster self-sufficiency and isolation within regions. The primacy of state interests is to be safeguarded by carefully drawing up "the single state economic plan," and by improving the monitoring of its implementation by statistical and control organs. Molotov's Ministry of State Control came in



for especially sharp criticism in the report, which also chided the planning organs for spasmodic and "irresponsible" work.

Khrushchev strongly emphasized long-term planning tasks, hinting that the specter of long-term growth "disproportions," especially in construction and raw material supply, was a major reason for the reorganization.

The themes of the primacy of heavy industry, the importance of the decisions of the 20th party congress, and the goal of catching up with the West were all emphasized by Khrushchev. He did not mention revision of Sixth Plan goals, which are apparently unlikely to be reduced significantly.

(Prepared jointly with ORR and concurred in by OSI)

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## MIDDLE EAST DEVELOPMENTS

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### Jordan

Deputy Premier and Foreign Minister Samir Rifai, who is the actual leader of the present cabinet, has expressed confidence that for the moment the situation in Jordan is well under control.

Rifai has informed Ambassador Mallory that, having decided on an anti-Communist line, Jordan was prepared to take necessary steps, including acceptance of training missions, to qualify for American aid.

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Cairo has stepped up radio attacks on King Hussain.

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Rifai told Ambassador Mallory that removal of the Syrian force would be one of the first steps to break up Syrian intrigue in Jordan.

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a note has been handed the Syrian charge in Damascus protesting some of the activities of the Syrian force

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June. Although the Atlit, which is now en route around Africa, could reach Eilat as early as 19 May, it is reported scheduled to leave Djibouti in French Somaliland on the last stage of the trip to Eilat about 28 May, reaching Eilat about 3 June. The Israelis reportedly intend to escort the Atlit from Djibouti through the Red Sea and the Gulf of Aqaba. Israel now has two patrol escorts available for this purpose at Eilat, together with at least two armed launches and two new motor torpedo boats. Israel reportedly expects that the transit will be opposed and intends to fight if attacked.

The recent arrival of two newly built French destroyers and an LST at Djibouti to "test hot weather capabilities" has significantly increased French naval strength there, which normally consists of a patrol escort, a coastal mine sweeper and a seaplane tender. The reinforcement in French naval units may indicate that France intends to assist Israel if Egypt or Saudi Arabia attempts to prevent use of the Gulf of Aqaba by Israeli shipping.

Egypt has at least two fleet mine sweepers and four to eight motor torpedo boats in the southern Suez Canal area, and could reinforce rapidly from Port Said.

A test passage of an Israeli-flag vessel, the Atlit, through the Gulf of Aqaba to Eilat will probably take place at the end of May or in early

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Suez Canal

Britain is evidently prepared to accept Egypt's conditions for operation of the Suez Canal, and France is showing some signs of willingness to compromise.

London now says it may request a UN Security Council meeting on the Egyptian canal declaration, but only if there are assurances that Egypt will promise at this meeting not to modify its declaration unilaterally--an unlikely possibility. UN Secretary General Hammarskjöld, who has been asked by the British to query Nasr on this subject, believes Cairo probably does not intend to make a unilateral modification, but would react vigorously if the Security Council asked for public assurances to this effect.

Britain still hopes to get the Suez Canal Users' Association (SCUA) to go on record with a statement which would help the British bargaining position in any future negotiations with Egypt both on the canal and on unblocking Egyptian sterling assets. The 8 May SCUA meeting discussed the Dutch proposal for a statement that use of the canal does not mean acceptance of the unsatisfactory Egyptian declaration as a permanent settlement, but was unable to agree on a communiqué and scheduled a further meeting.

Negotiations began in Basel on 5 May between Egyptian and British banking representatives

seeking to arrange payment of tolls in transferable sterling. The British are evidently willing in return to release the \$80,000,000 in Egyptian transferable sterling assets blocked after the canal seizure last August, but the American embassy in Cairo has gained the impression from a Bank of Egypt official that Egypt will demand the unblocking of all other Egyptian sterling assets, now estimated at about \$200,000,000. British shipowners, probably expecting that their government will soon sanction use of the canal, are now scheduling numerous transits.

Paris still opposes any move in the Security Council or elsewhere which might confirm the Egyptian stand. The French argue that if Cairo made a minor concession to soften the unilateral character of its memorandum, an unsatisfactory document would gain prestige, while an Egyptian refusal would damage the prestige of those who have to use the canal anyway. The French representative to SCUA stated on 2 May that France is willing to allow Egypt an opportunity to comment on the Suez issue in the Security Council itself. In order to keep the door open to negotiations, France proposed that further negotiations with Egypt should be handled through a "negotiating committee" of the council.

Paris continues to refuse permission for French vessels to transit the canal. There are some signs, however, that its stand is becoming less intransigent as other countries permit their vessels to pass through the canal, paying tolls to Egypt under protest. A Foreign Ministry spokesman indicated on 2 May that, at least on the working level, consideration was being given to the

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method of protest to be employed when France itself authorizes its shippers to use the Suez route. The continuing stubbornness in the government's formal position reflects Premier Mollet's and Foreign Minister Pineau's reluctance to swallow anything that implies a French defeat in Egypt, and their hope that delay will weaken Nasr's position.

Israel and the UN

UN Secretary General Hammarskjold went to Israel on 9 May despite his belief that the visit would not have any beneficial result.

The Israeli leader insists that any talks on these subjects must be preceded by assurances that Egypt will carry out "its obligations under the charter of the UN and the decisions of the Security Council." Hammarskjold nonetheless decided to make the trip because he felt he must maintain a record which will counter Israel's attempts to get the UN to assume the onus of failing to negotiate.

Ben-Gurion's attitude probably stems not only from Israel's unwillingness even to talk about the possibility of stationing UNEF units on the Israeli side of the armistice line, but also from a resumption of Tel Aviv's campaign to demonstrate the impotence of the UN as an instrument for maintaining peace in the Near East. The Israeli government in the last few weeks has indicated on several occasions its desire to ignore the UN truce machinery (UNTSO), and has sought to dem-

onstrate that the UNEF is ineffective in controlling the Gaza strip border.

Syria

Communist-supported government candidates won three out of the four seats in the parliamentary by-elections held on 4 and 5 May. The fourth seat was filled by a conservative tribal deputy. The government's victory appears to have been brought about primarily by manipulation of the electoral machinery.

Among the tactics employed by the government to thwart rightist-inclined voters was that of turning them away from their usual polling places, claiming that they were not "registered" there. The voters were shunted from one poll to another until they gave up trying to cast their ballots.

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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## THE ITALIAN GOVERNMENT CRISIS

The most likely successor to the Segni cabinet, which resigned on 6 May after Vice Premier Saragat had withdrawn his Democratic Socialist Party, is an exclusively Christian Democratic government. This would probably be in effect a caretaker government. Pending elections which are now scheduled for next spring but may be held this fall.

Saragat has been under strong party pressure in recent months to leave the government. This stems partly from a general belief that the Segni government has been proceeding too slowly with important economic and social reforms and partly from a conviction of many Democratic Socialists that withdrawal would expedite reunion with the Nenni Socialists. On 18 April, when the party directorate reaffirmed by a 14-7 vote its earlier stiff conditions for a merger, the left-wing minority reportedly threatened to pull out of the party if its mid-June congress endorsed these conditions and the party's continuance in the government.

Saragat told his party caucus on 5 May that the next step would be to try once more for Socialist reunification. His present position is at least a tactical reversal of his previous stand, which he had reaffirmed publicly on 14 April. He probably wants to avoid being isolated within the party now that its center, including former party secretary Matteotti and the Democratic Socialist-oriented labor confederation, has joined with the left in support of a merger.

Withdrawal from the government--a principal precondition laid down by the Nenni Socialists

for reunification--will enable the Democratic Socialists to demand that Nenni fulfill an important precondition they themselves had set--namely, a break with the Communists in the trade union field and in all front organizations.

With Democratic Socialist adherence to any new government thus made improbable for the immediate future, the Christian Democrats seem likely to attempt a single-party government, as certain elements in the party have long advocated. Party secretary Fanfani, who reportedly favors this approach, is a likely candidate for premier, as is former premier Pella.

Since such a government would have only 265 seats in the 590-man chamber, it would have to rely on the left for parliamentary support on some issues, and on other occasions on the 14 Liberals and most of the 40 Monarchist deputies. This would probably occasion no special difficulties on foreign policy and defense questions, but reliance on the right would antagonize the reform-minded Christian Democratic left wing and might cause it to break away. Important reform measures would be blocked and the government would have to confine its activities to the conduct of routine affairs.

Failure of protracted negotiations to produce a new government, or the early fall of a new government, might possibly lead to national elections before the legally mandatory date of June 1958. Administrative technicalities and a standing disinclination to hold elections during the harvest season virtually rule them out before next fall.

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**THE HONDURAN-NICARAGUAN DISPUTE**

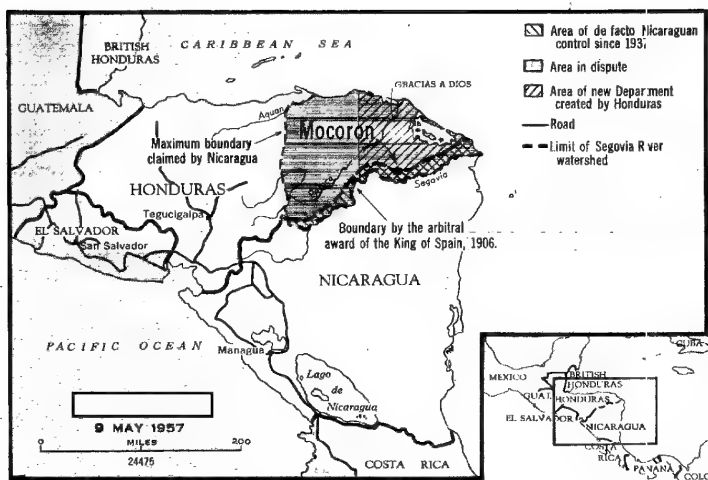
Public opinion remains inflamed in both Honduras and Nicaragua, despite the temporary cease-fire agreement negotiated by the special committee of the Organization of American States (OAS) on 5 May. Charges and countercharges of violations of the cease-fire by both sides are aggravating the situation and hampering the committee's efforts to work out a plan for troop withdrawals acceptable to both sides.

Fighting was limited to minor skirmishes and some air action in the difficult jungle and swampland of the disputed area. Most of it occurred near the village of Mocoron, captured by a Honduran force on 1 May and reoccupied by Nicaraguans the next day. The 4,300-man Nicaraguan national guard is considered superior in equipment and training to the 3,000-man Honduran army. The slight advantage of the Honduran over the Nicaraguan air force has been neutralized by the absence of Honduran airfields near the fighting area.

The Honduran military junta, which apparently provoked the current renewal of the old border dispute primarily for domestic political reasons, succeeded in arousing public opinion to a warlike pitch. Junta members now fear that they may lose control of the situation and, after signing the cease-fire on 5 May with great reluctance, informed the American ambassador they feared public reaction might lead to an upheaval and possibly their overthrow.

Nicaraguan leaders, though highly incensed at the Honduran moves, generally acted with restraint and attempted to calm an aroused public. They determined to limit, if possible, military action to ousting the Hondurans from Mocoron but at the same time prepared for the possibility of "total war" with Honduras.

The special committee named by the OAS in emergency session on 2 May arrived in Honduras early on 4 May and succeeded in concluding cease-fire agreements with each side by late the next night. The agreements gave the committee four days to work out a mutually acceptable plan for the withdrawal of troops of both sides from a zone in the disputed area. By 6 May, the first elements of a special military team of border observers, composed of officers from the five countries represented on the special OAS committee, had arrived in Honduras.

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Guatemala, El Salvador,  
and Costa Rica have publicly  
proclaimed their neutrality  
and are sending their foreign

ministers to Honduras and  
Nicaragua to offer their  
assistance in settling the  
dispute.

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**CONFIDENTIAL****CURRENT INTELLIGENCE WEEKLY SUMMARY**

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**PART II****NOTES AND COMMENTS****EGYPT'S FINANCIAL SITUATION REMAINS PRECARIOUS**

Egypt's failure in the last year to market a large part of its cotton crop and a decrease in foreign trade generally have caused a further deterioration in the government's precarious financial structure. There is growing inflation, a shortage of some goods--particularly imported items--and an acute lack of foreign exchange. The bulk of Egypt's primarily rural population has not yet been affected, while population of the urban areas is aware of the state of the economy.

Cairo is seriously concerned over the recent decline in the price of Egyptian cotton which had been rising almost steadily for over a year. A major reason for the earlier increase had been the artificially high price paid by the Communist countries. This has had the effect of pricing Egyptian cotton out of the world market. However, the bloc has never taken all of Egypt's cotton crop, and Egypt has constantly been faced with the problem of marketing the remainder in the West.

In an effort to move this surplus, Cairo has instituted a series of discounts ranging from 20 percent for sales against dollars and 15 percent for West German marks to 7 percent for sales against Indian rupees. Despite the discounts, however, foreign buyers are still waiting for a better deal and sales continue to be extremely slow. A high-level Egyptian delegation which recently toured West Germany apparently failed to make a single sale.

Egypt is becoming increasingly dependent on the Sino-

Soviet bloc. For example, Soviet bloc trade for January and February reached 56 percent of Egypt's total exports and 35 percent of its imports. This compares with 25 percent and 11 percent respectively for the same period in 1956.

While the bloc's share of trade grew sharply, Egypt's total trade decreased substantially. Imports of \$74,000,000 this January and February were almost 21 percent lower than during the same period last year. Exports of \$67,000,000 during these months were almost 16 percent lower than in 1956. The concomitant fall in customs receipts--an important source of government revenue--exacerbates the problem. It is estimated that customs receipts by mid-April were down almost \$26,000,000 below the same period of 1956.

Egypt's net balances in international clearing accounts have also fallen substantially since last fall. Its net credit balance against the Sino-Soviet bloc fell from about \$23,000,000 just before hostilities to about \$10,000,000 by mid-March. During the same period, Egypt rolled up large deficits with Western countries.

The Egyptian pound, formerly one of the most stable currencies in the Middle East, has substantially weakened. Lack of confidence in the economic policies of the present government has been partly responsible. Small lots of Egyptian pounds are selling for an average of \$1.80 as compared with about \$2.87 before the closing of the canal.

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Egypt has obtained \$47,-000,000 worth of aid from Saudi Arabia since the Suez crisis began. This has not halted the decline of business activity

in Egypt, however, and Saudi aid may well diminish if King Saud's relations with Nasr become further strained.

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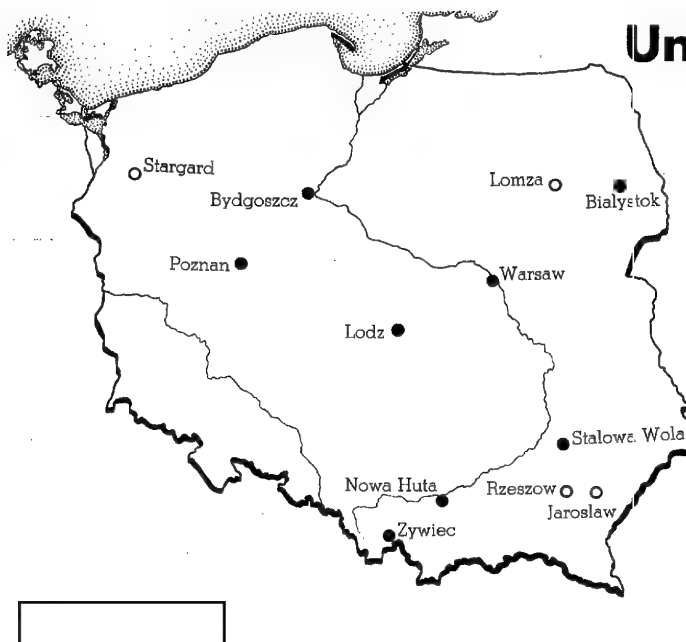
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### DISTURBANCES IN POLAND

Strikes and demonstrations have recently occurred in scattered areas of Poland; a major riot at Jaroslaw involved troops and townspeople. Black-market-eering and other illegal financial activities, always a problem in the Satellites, have become widespread since October. The regime may be compelled by these circumstances to reconsider some of its liberal policies.

Unrest continues among workers at the Cegielski locomotive works in Poznan, where

the June 1956 riots started, and workers reportedly have threatened to demonstrate during the Poznan fair in June. Gomulka received a grievance committee from the plant in early April, and reportedly may visit it personally in an effort to gain worker cooperation. Polish newspapers have reported that a major strike was narrowly averted in the huge Nowa Huta steel plant in southern Poland, while strikes have taken place in factories in Warsaw and the textile center of Lodz. A serious strike at the railway



### Unrest In Poland

- Reported serious labor discontent or strikes
- Reported clashes between populace and authorities

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repair works at Bydgoszcz 3 in April was apparently connected with unemployment problems. Workers in the Stalowa Wola region in southeastern Poland, which heretofore has been quiet, are reportedly demanding higher wages.

Denied pay increases and payment of back bonuses, industrial workers see their situation deteriorating through continued scarcities and rising prices. The American embassy in Warsaw has reported that worker "dissatisfaction and impatience" have been expressed in "stormy factory meetings about difficult living conditions."

In the Jaroslaw incident last week, townspeople and troops clashed with authorities attempting to arrest a young soldier. The rioters were dispersed only after more than 1,000 police and troops intervened and drove off the demonstrators with tear gas. Similarly last month in Stargard in northwestern Poland, demonstrators protesting an eviction beat up the mayor and battled with the militia.

The expanding ranks of private traders and craftsmen are finding it virtually impossible to earn a living honestly and are resorting to black-marketeering on a big scale. According to the press and qualified observers, government and party officials, insecure in their jobs under existing circumstances, are more than usually susceptible to collusion and bribery. Farmers are selling greater amounts of food to free markets and into extralegal channels; they see no reason for fulfilling their compulsory delivery quotas in view of promises that these will eventually be abolished. The increase in prices and uneven dis-

tribution resulting from the serious lag in compulsory deliveries has hit the urban worker the hardest.

An early solution to these problems is not in view. The regime hopes to acquire enough grain abroad to meet normal requirements and to put on the market from time to time to counteract price rises. If it does not succeed in controlling prices in this fashion, it must either abandon compulsory produce deliveries and let prices find their true level, or enforce the collection of crop quotas, thereby alienating the peasant and decreasing his productivity.

Furthermore the government may have to reappraise the policy of encouraging private trade and restrict its growth by denying licenses or imposing other rigid controls. Commissions already established to curb black-marketeering and speculation have admittedly proved ineffective to date.

Stern government action would risk the disillusionment of those who pinned their hopes on further liberalization.

The government has sought to discourage rebellious tendencies through warnings, visits by high officials to disturbed areas, and press and radio coverage of a trial of participants in last winter's Szczecin riots. Alleged popular demands for stricter enforcement of laws against "hooliganism and banditry," referred to in an article by the minister of justice on 3 May, may be the prelude to vigorous measures to strengthen control over the populace. Serious deterioration of this control would invite Soviet intervention.

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(Prepared jointly with ORR)

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# CURRENT INTELLIGENCE WEEKLY SUMMARY

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## NUCLEAR CONTROVERSY STIRS BONN GOVERNMENT

The rapid development of the nuclear weapons question as one of the major issues in the campaign for the West German Bundestag elections in September has produced a split in the Adenauer cabinet over the policy to be adopted. Defense Minister Strauss reportedly is insisting that immediate steps be taken to acquire nuclear weapons, while the government generally has chosen to back down on its public demands for weapons parity within NATO, placing greater emphasis instead on the need for over-all nuclear disarmament.

In a debate scheduled for the Bundestag on 10 May, the opposition parties will attempt to embarrass the government by forcing it into an unpopular stand in support of an atomic-equipped army. Nevertheless, there are indications that even in the ranks of the opposition Social Democratic Party (SPD) there is a wide division of opinion over tactics to be employed on this issue, since many SPD leaders do not want to have any future SPD-led government limited in its build-up of a modern army.

In the face of favorable public reaction to Albert Schweitzer's call for an end to nuclear testing, as well as to the renunciation of atomic bomb work by 18 prominent West German scientists on 12 April, the Bonn government has recently stressed its own efforts to bring about controlled nuclear disarmament. The Soviet Union, eager to influence political developments in West Germany, has helped to keep the issue alive by a propaganda barrage concentrating on the theme that the NATO council meeting in Bonn had focused its attention on "plans for the atomic armament of NATO members, above

all the Federal Republic of Germany."

The Soviet Union's letter to Bonn on 27 April warning of the "extreme danger" of West Germany's alleged intention to arm its forces with atomic weapons was attacked by Foreign Minister Brentano as "a method of interference unparalleled in international relations," and provoked a further bitter exchange of notes between Chancellor Adenauer and Soviet ambassador Smirnov.

The Soviet leaders probably believe that a public debate on the issue of nuclear weapons for Germany is likely to arouse fear and suspicion of Bonn's intentions among West Germany's neighbors and to disrupt plans for modernizing NATO's defense forces. Moscow's 27 April warning was addressed as much to France and other West European countries as to West Germany. It cited the "alarm" felt by West Germans and "the peoples of Europe" caused by Bonn's alleged plans to arm with atomic weapons, and recalled that West Germany is "the only European state whose government demands a revision of the present frontiers in Europe."

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Other leaders cited a recent unpublished opinion poll showing 57 percent of the West German public opposed to equipping the German army with

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atomic arms and the stationing of atomic warheads on West German soil. Adenauer and Brentano, apparently motivated also by the adverse reaction to their weapons parity demands,

reportedly insisted that in the Bundestag debate the government must stick to its line that it will take no initiative to acquire atomic weapons.

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## BRITAIN AND THE "FOURTH COUNTRY" NUCLEAR WEAPONS PROBLEM

In order to preserve Britain's unique position as the only producer of nuclear weapons in Western Europe, Britain is looking for ways to prevent additional countries, especially West Germany, from making such armaments. British officials have urged that the United States consider supplying nuclear warheads to "other countries" on condition that they forswear programs of their own.

argument on the USSR, especially in playing on Moscow's fear of a resurgent Germany.

It is the general impression among most Western delegates to the current UN Disarmament Subcommittee meetings in London that the Soviet Union has been making a more serious effort than ever before to reach a limited agreement to meet the "fourth country" problem. Foreign Office assistant under secretary Dean told the American embassy, however, that the Soviet proposals show that Moscow was not interested in specific steps to meet the "fourth country" problem.

Dean suggested it might therefore be advisable for the United States, or "even" Britain, to supply nuclear weapons, including warheads, to other countries if they would forswear undertaking their own weapons program. Other British officials had suggested earlier that the United States consider such a move. Any distribution of British nuclear weapons would seriously reduce Britain's own capability.

On 26 April, Foreign Secretary Lloyd told American disarmament delegate Stassen that he thought a French decision to fabricate nuclear weapons might be only a few months away, and that if France went ahead, West Germany would be quite certain to do so. Some British officials believe that French-German collaboration cannot be ruled out.

For well over a year, British officials have cited the "fourth country" problem as one of the most impelling reasons for seeking an international disarmament agreement. Presumably they have used the same

If this move does not materialize, Britain might then consider using some device under the Western European Union to supply nuclear weapons to France or Germany, if convinced that only such a move would keep them from producing weapons themselves.

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## CYPRUS

Athens now seems confident that Makarios will co-operate in a policy aimed at independence for Cyprus under some form of trusteeship--probably NATO--with self-determination reserved for reconsideration at some later specified date. Makarios is continuing his discussions with Greek leaders; however, he has already stayed longer in Athens than he originally believed prudent. The impact of his tumultuous welcome three weeks ago is dissipating. He is probably concerned over the lack of progress on the Cyprus issue, which he hopes to discuss with British officials in London. If the British do not indicate a willingness to receive him soon, he is likely to begin agitating to return to Cyprus.

British governor Harding told the American consul in Nicosia on 6 May that London is reassessing the strategic value of Cyprus in the light of Britain's planned military retrenchment. He said there is a limit--"say, two years"--on the time Britain can continue to rule Cyprus directly

in the face of local and Greek opposition. Although Harding would prefer a "Radcliffe-type" solution of limited self-government for the island, he apparently believes partition, "which conceivably could be carried out," is more likely.

Harding considers guaranteed independence, although preferable to partition, "at least at present" to be impracticable because of its unacceptability to Turkey. The consul believes Harding implied throughout his conversation that Britain has seriously considered simply withdrawing from Cyprus "if all else fails."

Turkish leaders continue publicly and privately to condemn independence and insist on partition. They might, however, eventually feel forced to accept a compromise granting Cyprus independence with treaty guarantees against enosis--union with Greece. If the British should withdraw--as in Palestine--without providing for an administrative transition, the Turks would probably move to occupy the island.

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## COLOMBIAN POLITICAL CRISIS

Colombian president Rojas' authoritarian policies, particularly his 8 May "re-election" for the 1958-1962 term, have provoked opposition in various parts of Colombia and may result in his being replaced shortly by a military junta. Serious discontent is increasingly evident among students, church officials, and some business groups, and is reportedly spreading to the military, the principal prop of Rojas' "Government of the Armed Forces."

Rojas launched his re-election campaign in early 1957 with an announcement by the minister of war that the military had decided that Rojas should continue in office for another term. The secretary general of the War Ministry and other high-ranking officers subsequently told the American embassy, however, that the armed forces wanted to be non-political and were critical of Rojas' dictatorial methods.

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In April, Rojas reconstituted the National Constituent Assembly--the sole legal basis of his regime--and packed it with his supporters as the means to ensure his re-election. In response to these steps, the two major parties nominated a joint presidential candidate, Conservative Guillermo Valencia, and demanded free elections in their joint platform. Reported military opposition to Rojas' continued dictatorial rule at a 30 April conference apparently caused the postponement of his scheduled "legislative re-election" from 1 May until late in the afternoon of 8 May.



The Catholic Church of Colombia, the most powerful politically in Latin America, has taken a stand against Rojas after almost a year in which an ill-concealed rift in church-state relations had been widening. The hierarchy has displayed sympathy for the opposition parties and their candidate; has attacked Rojas' governmental policies in sermons and pastoral letters; and has refused support to his re-election scheme.

The cardinal primate, apparently with the full backing of Colombia's bishops, has denied the legitimacy of Rojas' hand-picked assembly. Damage to a church in Bogota caused by police quelling a protest demonstration on 5 May will probably further alienate the hierarchy. Moreover, Colombia's leading labor confederation,

closely associated with the church, has consistently followed a policy of non-co-operation with the regime.

Rojas' problems are compounded by a difficult balance-of-payments situation which led to the adoption last fall of an austerity program pinching the interests of the business community. Important banking, commercial, and industrial groups have translated their economic grievances into political demands for a return to constitutional government. Business establishments are totally or partially closed down in the major cities, paralyzing the economic life of the country. Management may thus be co-operating in a general strike planned by the opposition to protest Rojas' re-election.

Probably to conciliate the growing opposition, Rojas reportedly has announced his intention to resign sometime during the 1958-1962 term in favor of a substitute acceptable to the armed forces. Such an intention, however, will probably be regarded by the opposition as only temporizing by Rojas to give him time to rebuild his support, especially since he indicated his determination to stand firm and grant no concessions in his 6 May speech to the nation.

Meanwhile popular unrest and violence continue to grow, despite the release from house arrest of the opposition presidential candidate. The opposition may be expected to invoke demonstrations, a general strike, and passive resistance to win military sympathy and provoke Rojas' ouster. There has been, however, no known participation of Communists in opposition activities to date.

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## "GUIDED DEMOCRACY" IN INDONESIA

President Sukarno has taken the final formal step in imposing his concept of "guided democracy" by promulgating on 8 May an emergency decree establishing his much-heralded national advisory council. Sukarno will head the council, appoint its members and outline its duties. Communists and pro-Sukarno left-wingers and extreme nationalists probably will predominate among the council's membership. The council will advise the cabinet "both at the request of the government as well as on the council's own initiative."

Control of the council and a pliable cabinet will give Sukarno a direct policy role in Indonesian affairs. He can be expected to take action to speed national economic development and to restore Djakarta's control over the disaffected non-Javanese areas. Sukarno probably hopes to use development projects in the provinces to buy back their loyalty and at the same time also probably plans to follow a program of

political and military pressure to undercut provincial leaders.

Sukarno will leave the details of policy implementation largely to his most loyal political followers--extreme nationalist youth and army veteran leaders, left-wingers, and Communists--thereby creating excellent opportunities for rapid Communist infiltration.

In the provinces, however, reaction to the establishment of the council--which involves both increasing government centralization and Communist influence--will be the intensification of anti-Sukarno and anti-central government sentiment. In Sumatra, the desire for a final break with the central government may be further stimulated by the government's arrest in Djakarta of the South Sumatran "commissioner" and ten members of the South Sumatran governing council. Any indication of the government's intention to use armed force to restore central control could precipitate regional conflict.

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## OVERSEAS CHINESE RIOT IN SOUTH VIETNAM

The rising resentment among Overseas Chinese in South Vietnam against Taipei's inability to protect them from mandatory naturalization decreed by the Diem government recently led to rioting at the Chinese Nationalist legation in Saigon. On 6 May, following two earlier demonstrations at the legation which resulted in extensive property damage, some 300 Chinese students battled their way through a police cordon and occupied the building for

many hours. Several of the demonstrators and police were seriously injured in the melee.

Chinese resentment centers on President Diem's determination to integrate into the Vietnamese community the nearly 1,000,000 Chinese whose privileged economic and political status dates from the period of French colonial rule. President Diem views the citizenship bestowed on locally born Chinese--numbering perhaps as many as

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400,000--as a privilege. The Chinese, however, in addition to their reluctance to sever traditional ties, are fearful of becoming "second-class citizens" and are almost universally opposing the nationality decree.

Although many officials in the government recognize the danger of a serious dislocation to Vietnam's struggling economy and the possibility of racial strife if the anti-Chinese drive is pushed too hard, Diem has thus far been adamant in his opposition to any compromise. There are indications, however, that the Vietnamese government is anxious to prevent the situation from deteriorating further during the president's visit to the United States. The issue is one which lends itself to Communist exploitation, and Diem has already blamed a "handful" of Communists for instigating the riots. Some of the demonstrators reportedly expressed pro-

Peiping sentiment and criticized the United States for backing the Saigon regime in its anti-Chinese actions. The American embassy in Saigon has also reported that the crowd-handling techniques of leaders of these purportedly spontaneous demonstrations appear to show Communist training.

With the broader implications to its prestige among Overseas Chinese communities throughout Southeast Asia made all too evident by the developments in Vietnam, the Taipei government has been desperately attempting to intercede with Saigon. It has announced that aid will be extended to those Chinese born in Vietnam who desire to come to Taiwan. Chiang Kai-shek has also indicated that the next step "might well be" to break off diplomatic relations with Vietnam, although Foreign Minister Yeh has indicated this would be a last resort.

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## POSSIBLE POLITICAL CRISIS IN LAOS

Speculation is widespread in Laotian political circles that Prime Minister Souvanna Phouma will resign or be overthrown after the National Assembly opens on 11 May. Souvanna's handling of the Pathet Lao negotiations has reportedly aroused considerable dissatisfaction among assembly deputies. If he remains in office, the deputies desire to establish definite terms as well as a terminal date for the negotiations. Meanwhile, possibly reflecting a shift in the political climate, the Pathet Lao delegation in Vientiane is receiving cooler treatment at social affairs and in the press.

In view of the present alignment of Laotian political parties, the formation of a new government would probably require prolonged negotiations. Any prime minister would have to include in his cabinet representatives of several factions outside his own party in order to get the necessary two-thirds approval in the 39-seat National Assembly.

The situation is further complicated by the new constitutional provision that prohibits deputies who are candidates for cabinet posts from voting for the formation of a government in which they would serve. Under

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these circumstances, the minority parties--the Democrats and the pro-Pathet Lao National Union Party of Bong Souvanna-vong--will probably have an influence on the formation of a government which is out of proportion to their numbers. Bong, who controls approximately one quarter of the assembly on foreign policy issues, would be in a good position to press for a policy of neutrality favoring the Communist bloc.

In the event of a government crisis, the Souvanna Phouma cabinet would presumably remain in a caretaker status. However, the lack of direction that would very likely attend a prolonged period of political uncertainty would probably weaken the functioning of the government and facilitate the subversive maneuvering of the Pathet Lao.

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## DUAL CITIZENSHIP PROBLEM IN MALAYA INDEPENDENCE TALKS

Chief Minister Abdul Rahman's main difficulty in negotiating final details for Malaya's constitution in London beginning 13 May will center on the critical question of dual citizenship. This proviso is being demanded by Britain for the many non-Malay residents who are British citizens of other colonies or of Commonwealth countries. Since this issue is tied to the larger problem of racial antagonism in the federation, it has assumed major proportions in Malay minds.

Rahman's United Malay Nationalist Organization (UMNO) has agreed to fairly liberal citizenship provisions for the large Chinese minority now resident in Malaya. At this stage, UMNO leaders feel they cannot afford further concessions which might encourage immigration by many Chinese who are already Commonwealth citizens through residence in Hong Kong and Singapore. These leaders are already under criticism from irresponsible, ultranationalist Malay politicians for agreements made to date. Further concessions would open UMNO to political

attack among the conservative Malay villagers who constitute the bulk of its support.

A further Malay argument is that the granting of dual citizenship to Commonwealth citizens might, at some future date, make it difficult to refuse to formalize the same privilege for those Chinese who would want to claim concurrent Chinese Communist or Chinese Nationalist citizenship.

A special working committee in Kuala Lumpur apparently has worked out compromises on most other outstanding issues: a satisfactory arrangement has been achieved on the question of state versus federal rights; Islam is to be the national religion; Malay and English the official languages; and preservation of the special rights of the indigenous Malays is promised.

The British Colonial Office believes that the Malayan delegation will compromise and allow British colonial and Commonwealth citizens, under certain conditions, to obtain Malayan citizenship without giving up their original citizenship. This might be

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accomplished by British acceptance of an understanding that Malaya would negotiate reciprocal bilateral citizenship agreements with various Commonwealth countries following the achievement of Malayan independence. In this connection, the British are aware that the present federation government offers the best hope for the development of a viable, moderate, pro-Western regime in Malaya. They would wish to make the solution as politically palatable as possible to the Rahman delegation.

For their part, the Malays are anxious not to jeopardize their amicable achievement of sovereignty in August and might, in the face of British insistence, give some ground for the sake of an early agreement. In such an event, they could be expected to revive the question later, regarding any compromise now as subject to Malayan review and change after sovereignty is achieved.

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## JAPANESE PRIME MINISTER'S SOUTHEAST ASIAN TRIP

Prime Minister Kishi will be the first Japanese government head to visit Southeast and South Asian countries since World War II. He is undertaking this trip prior to his visit to Washington in June to demonstrate his "independent diplomacy," to enhance his personal political prestige, and to initiate a campaign to win the confidence and ultimate leadership of the Asian nations. Kishi also probably believes that first-hand knowledge of the area will be useful in negotiating with the United States on Japanese-American co-operation in Southeast Asian economic developments.

Between 20 May and 4 June, Kishi will make approximately three-day visits to Burma, India, Pakistan, Ceylon, Thailand and Taiwan. He might include Indonesia in his itinerary if a reparations agreement with Japan appears imminent. Japanese opposition to the latest proposals for a settlement, however, suggest that a visit to Djakarta will be postponed until fall when Kishi plans to visit the remaining Southeast Asian countries.

Kishi's trip will emphasize his policy of "personal diplomacy," and probably will seek to overcome old animosities and create a climate of mutual



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trust by persuading his hosts that Japan poses no threat. His government is making more effective attempts than its predecessors to deal with the practical problems of economic co-operation with Southeast Asia, and the prime minister will stress offers of economic collaboration.

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Kishi also is likely to seek support for the Japanese proposal to ban nuclear weapons tests, to stress Japan's desire for closer ties with the Asian-African bloc, and to invite the leaders he visits to come to Tokyo. He can be expected to sound out his hosts on policy toward Communist China and attitudes toward the Communist bloc. He probably will seek to assess local sentiment toward American activities in the area.

The prime minister will probably receive a cordial reception since no sensitive issues exist between Japan and the countries he will visit. He is likely to receive encourage-

ment on banning nuclear weapons tests, particularly in India. His visit to Taiwan will be the most difficult because the Nationalists can be expected to press him on the issue of relations with Peiping.

Leaders of Kishi's Liberal-Democratic Party originally urged him to make the trip to push an "Asian first" policy for economic and domestic political reasons, including a desire to undercut the Socialist Party. His absence from Japan will also alleviate pressure for a cabinet reorganization, a matter which Kishi prefers to postpone until he establishes his pre-eminence in party affairs.

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## INCREASING THAI CONTACTS WITH COMMUNIST CHINA

The recent acceleration of "unofficial" Thai contacts with Communist China has been tacitly encouraged, if not actively promoted, by the Bangkok government. Although Thai leaders still insist that formal recognition must await Peiping's admission to the UN, these contacts indicate a desire for some "normalization" of relations with Communist China. Peiping is already seeking to exploit this opening in the hope of expanding its influence.

While there have been previous "good-will" and business visits to Peiping by individual Thais in the past months, a record number of Thais are now on such missions in Communist China. These include a 48-member cultural troupe--composed of Thailand's best artists--a labor delegation, and possibly a few journalists.

None of these groups could have traveled to Peiping with-

out at least the tacit consent of Bangkok authorities as their members all had passports valid for Hong Kong, the usual point of entry into Communist China. Government collusion was particularly suggested in the departure of the cultural troupe. The size of this group, its composition, the great secrecy surrounding the preparations for its departure, and the absence of the usual "warnings" against the consequences of visiting Communist China all point to official involvement. The troupe is scheduled to visit several major Chinese cities and is reportedly "considering" traveling on to the USSR and Poland.

Bangkok's approval of such contacts with Communist China is probably motivated primarily by local political considerations. Some Thai leaders, such as Minister of Interior Phao, reportedly believe the government must attract leftist support if it is to remain strong. They may believe the recent

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postelection demonstrations support their position. This attitude may be a factor behind the maneuvering which is said to be going on in the interest of facilitating the return of former premier Pridi from China.

The Thais may also desire to hedge against their strongly pro-Western orientation. Thai leaders are acutely conscious of Communist China's military and subversive capabilities. There is also some popular sentiment that Thailand is losing its share of the Chinese market and therefore that trade relations should be promoted.

Although the stepped-up contacts with Communist China do not portend an early or drastic revision of Thailand's foreign policies, they provide Peiping with an opportunity to enhance its influence in an

area from which it has heretofore been effectively excluded. Rebuffed in earlier attempts to establish closer economic ties with Bangkok through offers of trade and aid, the Chinese Communists are now putting increased emphasis on propaganda and "people's diplomacy."

Relaxation of Thai restrictions on the importation and screening of Chinese Communist motion pictures last December was immediately exploited by Peiping. Since then 12 films produced in China have had successful runs in Thailand. The American embassy in Bangkok recently reported that the Chinese Communists were holding what amounted to a "film festival" in the Thai capital. Peiping will almost certainly attempt to use the present Thai visits to press for Bangkok's acceptance of return visits by Chinese Communist "cultural" groups. [REDACTED]

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## CHINESE COMMUNISTS REAFFIRM LIBERALIZATION POLICY

The Chinese Communists have given new impetus to the liberalization campaign initiated a year ago, emphasizing persuasion rather than coercion in carrying out Peiping's programs, and this policy is being followed in trying to resolve present "contradictions" between the people and the leadership. Peiping declares that its policy to "let all flowers bloom and all schools of thought contend" is proving successful and will not be reversed.

[REDACTED] Western-educated Chinese now feel less hesitant about visiting Europeans and entertaining them in their homes. Foreign diplomats, [REDACTED] can travel to most parts of the country with relatively little surveillance.

The Chinese Communist position on liberalization, elaborated in some detail in 1956, is that intellectuals can be conceded freedom of thought "inside the camp of the people." A period of caution followed last fall's disorders in East Europe, but Mao Tse-tung's address on "contradictions" to the Supreme State Conference in February sparked a general reaffirmation of Peiping's liberalization promises. While Mao's speech has not been released, Communist commentaries on the text indicate that he called for all to speak out on matters of common concern and rejected the use of force.

[REDACTED] the new atmosphere led to the publication of more academic works last year than in all the

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previous years of Communist hegemony in China. This claim is supported by observers in Hong Kong, who note a large increase in the number of mainland publications appearing in the colony.

There appears to have been an appreciable upsurge of intellectual debate, but so far mostly on issues in the arts and letters. A short novel, entitled Young Newcomer to the Organization Department, by a 22-year-old Chinese author, is indicative of the freer expression the regime is prepared to tolerate. The story revolves around a young man assigned to his first post in the party organization in Peiping. Starting out with high ideals, he becomes gradually disillusioned by his encounters with party bureaucracy and with the cynicism of party leaders.

The author writes as a Communist condemning departures from the Communist ideal and does not challenge the fundamentals of Communist belief. His descriptions of party life have been considered inflammatory by many readers, however,

and like the Soviet writer Dudintsev's Not By Bread Alone, the novel has become the object of acrimonious debate.

The limits of Peiping's liberalization program have not been clearly defined, but Peiping has indicated that the guiding formula is to be "unity-criticism-unity"--that is, criticism will be tolerated only from friendly persons desiring unity in China and writing with the purpose of bringing the masses and the present leadership closer together. In practice the formula leaves to the regime the judgment as to when criticism becomes "counter-revolutionary" and designed to alienate the masses from the leadership.

Apparently confident of its continuing ability to keep criticism within proper bounds, the regime condemns doctrinaire opponents of liberalization within the party as anti-Marxist and sectarian, and promises that liberalization is to serve as a guiding principle of party policy over the long term, not as a short-run measure of expediency.

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**SOUTH KOREA PREPARES FOR NEW POLITICAL REPRESSION**

The plan of the South Korean government to revitalize neighborhood associations, usually comprising between 10 and 15 households, foreshadows increasing reliance on coercion and intimidation to assure the tenure of the governing Liberal Party. Such associations, utilized by the Japanese as the lowest level of Korean local government, served as an informing and coercing device to keep the native population subjugated.

The associations have continued to function as community

organizations but have had no official status and not much popular support. The announcement of the government's decision to strengthen them has provoked opposition allegations that the administration intends to revive Japanese police practices.

An opposition attempt to block such a move by outlawing the associations was defeated on 26 April in the National Assembly. The home minister, defending the administration's policy, claimed that the strengthened associations would

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facilitate "better understanding" between the people and their government and be "basically different" from those of the Japanese.

While denying they would be controlled by the national police, the minister did admit that the strengthened associations would assist the police against the "fifth column" and aid in exposing corrupt officials. Government plans reportedly also call for the establishment of police offices to maintain liaison with these groups. Thus organized, all local political activity would be exposed to the scrutiny of Liberal Party supporters, who would need only report to the police to assure pressure against any administration opponent.

Opposition apprehensions have been further heightened by proposed legislation, possibly to be revived when the assembly reconvenes in September, which would ensure the Liberal Party's supremacy. Amendments to the assembly law, which include

elimination of the secret ballot on certain issues, would facilitate passage of a constitutional amendment to remove opposition Vice President Chang Myon from the line of presidential succession. Such a constitutional amendment, combined with proposed revisions in the election law which would handicap opposition candidates in the 1958 assembly election, would remove the only two immediate avenues available to the opposition for gaining political power.

Opposition fears of increased administration harassment and coercion appear well founded. The government's actions tend to confirm reports that Liberal Party leader Yi Ki-pung has given up hope of winning a free election and will rely on repressive measures to assure an administration victory. A recent reference by the home minister to the "will of the people" is ominously reminiscent of President Rhee's use of this term to justify his heavy-handed tactics during the 1952 constitutional crisis.

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## BULGANIN SAYS SOVIET ECONOMY CAN OVERTAKE AMERICAN IN 40 YEARS

Premier Bulganin on 5 May in an interview with American women radio and TV representatives said that up until the socialist revolution "the country was very backward, impoverished. Then we could not develop like the United States. Now our country is second in the world. You are ahead of us and we follow. In another 40 years we can overtake you." This is the first statement by a top Soviet leader in recent years of the time required to "catch up with the West." The usual formulation has been the

vague "shortest possible historical time period."

If Bulganin is referring to the volume of over-all production, according to current estimates the Soviet gross national product (GNP) would have to grow at an average rate of 6 to 6.5 percent between now and 1997 to realize Bulganin's prediction. This contrasts with an average annual rate of about 7 percent achieved between 1950 and 1955. The USSR, however, probably would not be able to maintain growth of the required

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magnitude over the entire 40-year plan.

Western economies in the process of industrialization have experienced a deceleration of growth rates at stages of development comparable to that the USSR is now reaching, and there is no reason to expect that the USSR can avoid this deceleration. On the contrary, the Soviet Union is entering a period when it will no longer enjoy such advantages of the Stalinist period as a surplus of agricultural labor and the ability to defer replacement costs, and will be increasingly unable to give to heavy industry the same high priority as in the past.

If the United States is able to maintain its recent growth rate for the next 40 years, the USSR would probably be unable to close the gap within the stated time.

If Bulganin was referring to per capita production, then the chances of catching up with the United States in 40 years are even less likely, since Soviet population exceeds the American population and both have been growing at about the same rate.

The 40-year figure has not been publicized within the USSR, and since the 40th anniversary of Communist rule is being celebrated in the USSR this year, Bulganin might merely have been making an off-the-cuff observation that in "another 40 years" the USSR could overtake the United States. It probably represents, however, a rough approximation of the Soviet leaders' thinking about the country's economic potential in the context of the present economic re-examination.

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## PART III

PATTERNS AND PERSPECTIVES

## SOCIALIZATION IN COMMUNIST CHINA

Shortly before the new Chinese Communist state was established in 1949, Mao Tse-tung declared that one of its principal tasks would be to transform China from an "agricultural to an industrial state and from a new democratic to a socialist society." Since then, Communist China has been in what its party theorists describe as the "transition period" to socialism.

Although Chinese writers now claim that the transition was a peaceful one, there was considerable violence and bloodshed in the early stages, particularly during the land reform movement in the countryside and the campaign against "vices" in the cities. The populace was thoroughly cowed by these developments, and Mao Tse-tung personally ordered in July 1955 that the transformation process be greatly accelerated. By the beginning of 1957, over 96 percent of the nation's peasant households were enrolled in co-operatives, industrial and commercial business was transacted largely through some form of socialist organization, and the Communists could claim that socialist reform had been "basically completed."

Agriculture

Land reform, which forced out the landlord and rich peasant, was the first step toward socialism in agriculture, followed by the production of seasonal mutual-aid teams which were gradually transformed into permanent, year-round teams. The next step was the organization of a number of low-level agricultural producer co-operatives in which income continued to be derived from individual investments of land and equip-

ment. The final stage has been the high-level co-operatives, virtually indistinguishable from the Soviet collective farm. The percentage of farm households enrolled in co-operatives jumped from only 15 percent in mid-1955 to 96 percent at the end of 1956, and fully four fifths of the co-operative farmers are now in collectives.

Peiping is conscious of the hazards of overdirection in regard to the collectives. A recent decision by the Ministry of Agriculture provides that in 1957 state production quotas will be imposed on only nine instead of 25 crops, "to encourage peasants to run the co-operatives independently."

One of the most difficult problems facing the regime, however, is how to divide a co-operative's harvest. Grain and cotton procurement programs for the current crop year are lagging; and, while this may result in part from overestimates of the harvest, Peiping clearly suspects the peasants of holding back on the state's share of the crop and has urged local cadres to greater collection efforts.

Although there was little resistance in the beginning, there have been recent indications that the peasant is beginning to grumble about his hard life as compared to the life enjoyed by city workers. Morale on many of the collectives is reportedly low. The peasant apparently does not work as effectively or enthusiastically for the collective as he did for himself. He neglects the collectively owned animals and equipment, and resents the chair-borne cadres who eat but do not work. The

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official People's Daily has remarked that the peasants fail to grasp the idea that the best way to help themselves is to help the collective.

The regime has indicated to the peasants that in three to five years' time their average income will reach the level of today's upper middle-level peasant. The authorities doubtless recognize, however, that collectives are not the panacea for all the nation's agricultural ills. The collectives will probably be measured by Peiping chiefly in terms of how well they meet the delivery quotas laid on them by the economic planners, and increased investment in agriculture will be required in order to achieve steady increases in production.

**Industry and Commerce**

When the Chinese Communists came to power in 1949, they immediately nationalized enterprises which had been in the hands of the Chinese Nationalist government, as well as the property of individuals closely identified with it. This included practically all heavy industry and railroads.

A number of private businessmen in both industrial and commercial pursuits, however, were encouraged by the new regime to continue operating. While it did not hide the fact that the eventual goal was the extinction of all capitalists, Peiping indicated that a prolonged period of capitalist-socialist coexistence was possible.

By restrictive taxation, by encouraging labor excesses, and by taking over sources of supply and markets, the state gradually moved to curtail the ability of private businessmen to "exploit" the people. The first landmark in the transition process was the campaign

against "vices" in 1952, which broke the will and ability of China's capitalists to resist state encroachment further. The second landmark was in late 1955 and early 1956 when private businessmen were swept up, amid the ringing of gongs and parading of banners proclaiming "double joy," in Mao's accelerated drive to socialism.

When the gongs were stilled, approximately 96 percent of the nation's onetime private industrialists and 67 percent of privately owned commercial undertakings had taken the step to joint state-private ownership. These joint enterprises, in which theoretically both the state and private interests have invested money, have been more accurately described as governed, used, and managed exclusively by the state. They constitute the last step in the transition process before socialism is attained. Former capitalists are now receiving fixed payments, amounting to a liquidation dividend, on the value of their private share. The Communists promised late last year that this rate of return, usually around 5 percent, would be continued for about seven years, after which the firms would presumably be completely socialized.

Peiping acknowledges that many former capitalists, after accepting joint status, indulge in "improper behavior" and fail to "align their individual interests with state interests." As a result, a special "college of socialism" has been established in which, by intensive study of Marxism-Leninism, the former capitalist can raise his "socialist consciousness."

Several drawbacks to the socialization of the industrial and commercial economy became conspicuous during 1956, especially in regard to retail trade. Peiping admitted that the stultifying hand of state

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commercial departments had inhibited production and led to maladjustments of the distribution pattern. Inflationary pressures built up, and, because prices were rigidly fixed, the quality of goods was reduced. Sales dropped and so did state revenues. Clearly an adjustment was in order.

Last September, Chen Yun, China's top economic policy maker, stated that it would be preferable if a "very large section of industrial, handicraft trade, rural sideline production and commerce be carried on under individual management." Handicraft co-operatives should be split up. Limited price rises should be permitted as an incentive to improving quality. "Free markets, duly supervised and limited in scope," should be permitted to encourage the local interchange of specified commodities.

Chen insisted that these steps, most of which have been put into practice, did not represent a return to capitalism, and pointed out that state supervision would ensure against any capitalist-style profit taking. He also noted that the state retained its monopoly in the trade of essential commodities like grain, cotton, edible oils and export goods.

It is unlikely that these measures will solve the underlying problems in this field; and for some time Peiping will have to work toward achieving a satisfactory compromise between the demands of the state for the greatest possible return from its commercial activities and the requirement for more freedom and greater monetary incentives for individual traders.

Claims to Originality

In expounding their philosophy of socialization, the Chi-

nese advanced certain doctrines which diverged from Soviet views. Avoiding direct comment on Moscow's insistence that the "dictatorship of the proletariat" was the necessary state form for building socialism, Peiping's theorists asserted in 1953 that the "people's democratic dictatorship" was the political structure under which China would advance to socialism. The issue was largely one of semantics, pursued by Peiping primarily to glorify Mao Tse-tung with an eye to the Communist movements in "backward, noncapitalist" countries.

In 1956, Peiping conceded that the people's democratic dictatorship was a variant "form" of the Soviet proletarian dictatorship. It nevertheless insisted on retaining the distinctive formula of people's democratic dictatorship, a formula used by no other Communist country until Hanoi borrowed it recently to describe North Vietnam's state structure.

Peiping also claims that China's "peaceful" transformation of capitalists into wage earners is unprecedented in Communist theory and practice. Chinese theorists credit Mao with having "discovered" a new way for socializing capitalists, who in China are being "bought out" rather than "smashed." Describing this method as "something that has appeared for the first time in the world," they have asserted that the theory of the peaceful transformation of capitalism in China "is still another brilliant contribution of Comrade Mao Tse-tung to the storehouse of Marxism."

Since the death of Stalin, Moscow has gradually moved closer to Peiping's view of the Chinese transition to socialism. At the Soviet 20th party congress, Shepilov applauded the "masterful application" of Marxist dialectics made by the

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Chinese under existing conditions in China. Khrushchev's attack, in his secret speech, on Stalin's theory of intensification of the class struggle during the building of socialism, as well as the congress line on different forms of transition to socialism, indicated general acceptance by Moscow of the Chinese position.

Mikoyan told the Chinese party congress in September of the same year that "each country has its distinctive features and contributes something specifically its own in effecting the transition to socialism." He stated that the bourgeoisie in China had "found it more convenient not to clash with the people's state, but to work under its control," and that, as compared with the setting of the Russian revolution, there had been in China "new

historical conditions, a more favorable situation." This fact explained differences in Soviet and Chinese "experience," and left room for certain innovations.

While accepting the Chinese position on "peaceful" transformation, Moscow has praised the Chinese, who, according to a 23 November Pravda editorial, "always make it clear that their methods, though perfectly correct in their own country, are not necessarily of universal application." The Chinese Communists have deferred to the USSR and have criticized those party members who had denied the significance of the Soviet Union's "fundamental experience" and "underestimated the importance of learning from the Soviet Union." (Prepared jointly with ORR)

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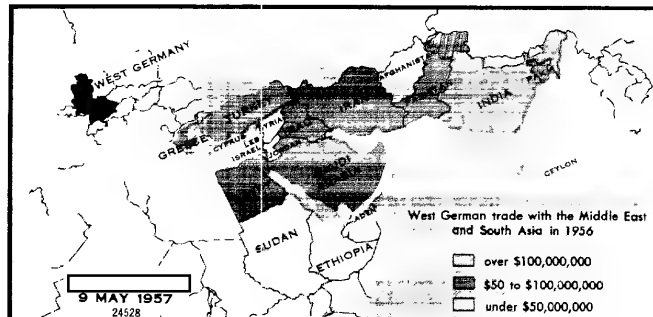
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**WEST GERMAN ACTIVITIES IN THE MIDDLE EAST AND SOUTH ASIA**

The past few months have seen an acceleration in the steady effort by West German government leaders and businessmen to expand the Federal Republic's commercial and diplomatic influence in the Middle East and South Asia. There are particular reasons for such an effort in the Middle East and South Asia at this time. The extensive economic development programs being undertaken by a number of the countries in the area offer unusual opportunities to the Germans, with their reputation as plant builders, road makers, and dam constructors.

Over the past six months, moreover, the feeling in the Arab world against Britain and France has given German exporters a special opportunity.

Since the beginning of the year, West German government officials and businessmen have

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been making good-will visits to various Middle Eastern and South Asian countries. Chancellor Adenauer's visit to Iran in March was followed by that of Defense Minister Strauss and President Heuss. Foreign Minister Brentano concluded his trip around the world with a visit to India in March; Vice Chancellor Bluecher returned from Pakistan in March; and a commercial commission, composed of representatives from the Ministries of Foreign Affairs, Agriculture, and Economics, and from banking circles, made a six-week tour of Pakistan, Ceylon, Burma and India.

**Political Aims**

Besides its interest in markets and investment opportunities, Bonn is anxious to increase its diplomatic influence in the Asian countries. Its immediate aim is to prevent recognition of the East German regime by non-Communist states. Bonn's long-standing position is that it will not maintain diplomatic relations with any state--other than the USSR--recognizing East Germany, but it has recently been considering establishing diplomatic relations with the Eastern European Satellites and evidently feels in need of assurances that such a move would not be followed by extensive Asian recognition of East Germany.

Looking somewhat further ahead, Bonn is seeking to line up maximum support in the UN for its views. In particular, it intends to get the German unification question brought before the General Assembly and is highly conscious of the important role played by India and other Asian members in that body. Bonn has also indicated its concern over Communist infiltration of the underdeveloped Asian countries and its belief that this requires a

strong Western countereffort, chiefly in the economic field.

West German diplomatic endeavors in the area have so far met with moderate success. Brentano succeeded in getting Indian prime minister Nehru to issue a statement on the need for a peaceful settlement of German unification but did not obtain the commitment he sought of firm Indian support for the West German position on this issue. Bonn has succeeded in maintaining good relations with the Arab states, despite the anti-European feeling generated by Suez and its own continuing reparations shipments to Israel. The Germans have carefully refrained from establishing diplomatic relations with Israel, and the Arab states have refrained from recognizing the East German regime.

**Trade Drive**

The level of prewar Germany's trade has been surpassed, and sizable long-term financial investments and technical aid programs have been launched. Total trade between West Germany and the Middle East and South Asia amounted to \$1.30 billion in 1956, representing 9 percent of Germany's world trade.

A technical commission was formed in Bonn last winter to advise the Foreign Ministry on problems of co-operation with the underdeveloped countries. It will probably call for an increase of the government's technical assistance fund and press for cheaper credits for exports on a long-term basis.

Egypt: The most striking illustration of West Germany's trade drive is provided by the industrial fair it held in Cairo in early April. Officially described by Bonn as directed against Soviet bloc efforts at infiltrating Egyptian

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economic life, the fair was highly successful in promoting German trade, and the 400 participating firms will probably profit financially. West German business firms already have an investment of more than \$100,000,000 in various industrial and technical projects in Egypt; the most recent, a telephone factory to be financed and equipped by a West German firm and later to be turned over to the Egyptian government. Last year's trade between the two countries totaled slightly more than \$81,400,000.

Turkey: Turkey is an even more important German trading

Iran: Trade between Iran and West Germany last year amounted to \$70,900,000 and, as a result of Chancellor Adenauer's visit in March, a further rise seems likely. In response to the Shah's suggestion that German capital should come to Iran, it was agreed that a German economic mission would be set up to survey the possibilities for future economic expansion. West Germany is already giving agricultural training to Iran and is to set up and finance

two vocational schools. German industrialist Alfried Krupp is considering initiating his "Point 4-1/2" program for the aid of underdeveloped countries with the construction of a railway link from Iran to Turkey.

India: India has consistently been West Germany's leading trading partner in the area, with 1956 imports of \$195,318,000 and exports of \$45,110,000. After difficult financial negotiations a new quota agreement covering Indian-German trade was signed last

month. In December of last year, German investments in India amounted to \$34,120,000, and Alfried Krupp, who heads a consortium engaged in constructing a steel mill, is reported to be negotiating for participation in a number of additional Indian industrial projects. The Germans are to set up and equip a "Footwear Technology and Training Institute" in Madras.

Pakistan: Bluecher agreed in March while in Karachi to establish a model German district

**WEST GERMAN EXPORTS TO, AND IMPORTS FROM, THE MIDDLE EAST AND SOUTH ASIA**

	1936		1956	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS
EGYPT	14,800,000	17,200,000	25,800,000	61,000,000
IRAN	9,200,000	12,000,000	28,100,000	52,000,000
INDIA	Under 2,000,000	61,900,000	61,900,000	28,400,000
ISRAEL	800,000	6,800,000	5,700,000	65,300,000
PAKISTAN	Under 800,000	Under 2,000,000	28,700,000	29,000,000
ARABIA	Under 800,000	Under 2,000,000	73,900,000	19,300,000
ADEN	—	—	700,000	3,000,000
AFGHANISTAN	Under 800,000	Under 2,000,000	3,700,000	8,400,000
CEYLON	3,213,000	1,198,000	12,600,000	8,000,000
CYPRUS	—	—	25,300,000	7,000,000
ETHIOPIA	—	—	1,100,000	5,000,000
JORDAN	Under 800,000	Under 2,000,000	200,000	4,700,000
LEBANON	800,000	2,000,000	2,900,000	20,600,000
SUDAN	—	—	17,800,000	4,600,000
SYRIA	—	—	12,200,000	19,400,000

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partner. In 1956, it imported goods valued at \$93,300,000 and sent to Germany goods worth \$67,100,000. After the recent visits of Adenauer and Strauss to Turkey, West Germany agreed to extend financial aid and technical assistance to expand Turkey's munitions manufacturing capabilities. West Germany had already concluded munitions contracts with Turkey in 1956 totaling \$175,000,000, and other investments amounted to \$42,240,000 at the end of the year.

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for agricultural development and experimentation. This will extend over a period of about 5 to 6 years and will cost about \$720,000. A joint statement on the desirability of intensified economic co-operation between the two countries was issued at the close of Bluecher's visit, and a Pakistani delegation is to study general economic and financial questions in Germany.

Afghanistan: The West Germans have been actively combating Soviet economic efforts in Afghanistan, competition being particularly keen on credit and favorable payments terms.

A planned expansion of West German technical assistance to Afghanistan will reportedly reach \$12,000,000 in the next several years. West German investors, however, are proceeding cautiously in view of recent payments difficulties with Afghanistan.

Surveying the scene generally, the West German Association for Middle East Trade has expressed hope for a further expansion of West German trade in 1957.   
in by ORR)

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**MEETINGS OF HIGH-LEVEL SINO-SOVIET BLOC LEADERS**

A program of top-level visits among Sino-Soviet bloc leaders begun after the crises in Poland and Hungary last fall is apparently scheduled to continue on an intensive basis during the coming months to reinforce the bonds of "proletarian internationalism."

The current series is much more extensive than the high-level bilateral contacts within the bloc after the death of Stalin. Since October, for example, all of the European Satellite regimes have sent delegations to Moscow. With the exception of the Poles, all of these groups have paid homage to the Soviet Union and to the heroic action of its troops in Hungary. Satellite leaders have also exchanged visits among themselves and have issued communiqués which, while paying respect to one another's socialist virtues and dealing with matters of mutual interest, have empha-

sized the USSR's leadership of the socialist camp.

The exchange program was presumably instituted by Moscow as an inoffensive way of publicly reasserting the form of control and ideological guidance it sought to exert for a time through the Cominform. Both the French and Italian Communist Parties, the only nonbloc Cominform members, have, in fact, been active in the current program. The bilateral contacts presumably offer the Satellites some measure of prestige and sovereignty in harmony with the Soviet declaration of 30 October reaffirming Satellite "sovereignty."

Chinese Communist participation in the program, however--although undoubtedly considered a necessity by the Soviet leaders--may have had unwelcome consequences in Moscow's eyes. The regime in Poland has taken considerable heart from the

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encouragement extended by the Chinese Communists. Chou En-lai's visit to Warsaw last winter, Polish premier Cyrankiewicz's trip to China this spring and the forthcoming--according to the Poles--visit of Mao Tse-tung and Chou En-lai to Warsaw appear in part to represent Chinese endorsement of the Gomulka regime and its moderate course, as well as Peiping's effort to strengthen Warsaw's ties with the bloc.

Least traveled of all major bloc leaders during the past six months are the Soviet leaders themselves. Voroshilov's current ceremonial tour of China and Indonesia is the first excursion by a party presidium member since January, when Khrushchev and Malenkov went to Budapest for an emergency Soviet-Satellite meeting.

**MAJOR SINO-SOVIET BLOC MEETINGS SINCE 1 NOVEMBER 1956****EUROPEAN SATELLITE DELEGATIONS TO MOSCOW**

	APPROXIMATE DATE
Polish	mid-November
Rumanian	early December
East German	early January
Czechoslovak	late January
Bulgarian	mid-February
Hungarian	late March
Albanian	mid-April

**INTER-SATELLITE MEETINGS**

COUNTRIES	MEETING PLACE	APPROXIMATE DATE
Hungary-Czechoslovakia	Budapest	mid-November
Czechoslovakia-East Germany	Prague	early December
Hungary-Czechoslovakia		
Rumania-Bulgaria-(and USSR)	Budapest	early January
Albania-Bulgaria	Tirana	late January
Bulgaria-Rumania	Sofia	early April
East Germany-Rumania	Berlin	late April
Czechoslovakia-Poland	Prague	early May

**MEETINGS WITH CHINA**

COUNTRIES	LOCATION	APPROXIMATE DATE
USSR	Moscow	early January
Poland	Warsaw	mid-January
Hungary	Budapest	mid-January
Poland	Peiping	mid-April
Czechoslovakia	Peiping	late March
Poland ?	Warsaw ?	possibly scheduled for late summer.

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**THE NAGA REBELLION ON INDIA'S NORTHEASTERN FRONTIER**

Recent developments in India's strategic northeastern frontier region indicate that Prime Minister Nehru now is willing to compromise with leaders of the hostile Naga tribesmen who have been in armed revolt against the Indian government since 1952.

Top-level negotiations held in Assam during April between the Indian authorities and the Naga leaders may prepare the way for cessation of guerrilla activities which have threatened the vital rail link with upper Assam and cut off much of India's frontier with northern Burma.

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25X1 The apparent lack of success of the army and police in suppressing the resistance

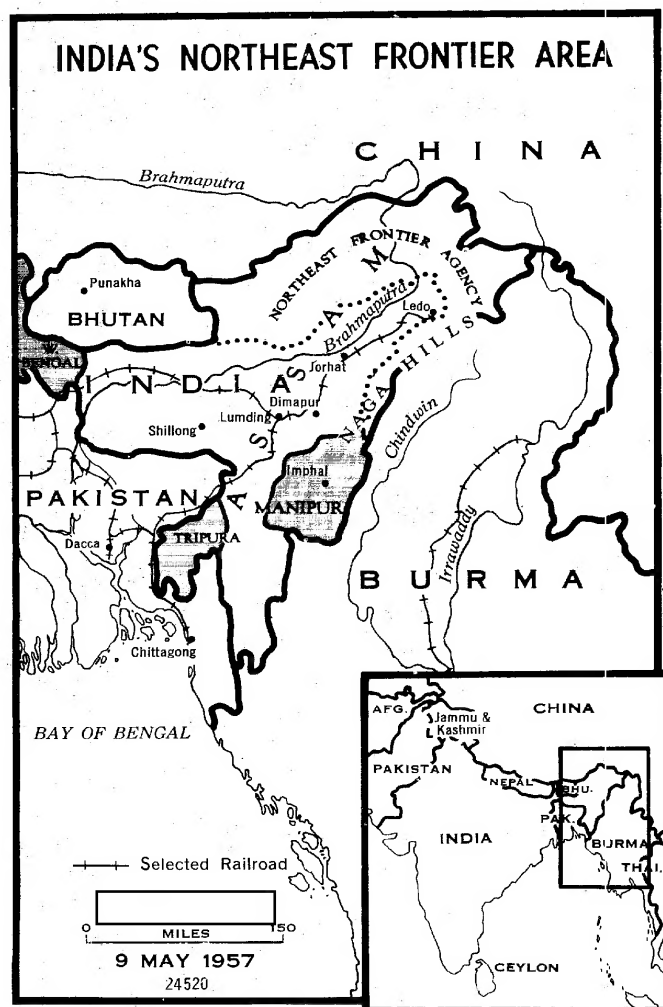
appears to have caused New Delhi to redouble its efforts to solve the problem before another monsoon season.

**Separatist Movement**

The separatist movement, spearheaded by certain elements of the Naga tribes, has long been the most serious of India's frontier tribal problems. The Naga region is the only

one on the northeastern frontier where organized political activity has developed. The traditional animosity of the Mongoloid tribesmen toward people of the plains has been shaped by shrewd leadership into a militant demand for an independent "Nagaland." The surprising strength and persistence of the agitation probably results from the personal ambitions of such semieducated Naga leaders as Zapu Phizo, "supremo" of the separatist movement and veteran of the British Indian army. Of the estimated 300,000 to 400,000 Nagas living on the Indian side of the border, only about 2,000 appear to be actively hostile. Many of the peaceful Nagas, however, seem to sympathize with the aims of the separatist leaders.

Since disturbances broke out in 1952, the movement has developed into a resourceful terrorist operation. The pattern in the Naga Hills has been one of intermittent "incidents" which range from head-hunting and hit-and-run attacks on government police posts to pitched battles with combined police and army forces. The raiders have been well supplied with small arms, most of which apparently have come from abandoned Japanese and Allied war dumps in the area. Their familiarity with the wild terrain gives them a great advantage over the government forces. Like the terrorists of Malaya, they fade into the jungle or mix unnoticed

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with the peaceful tribesmen during the day and launch surprise attacks under cover of night.

Possible Foreign Support

The Naga movement is believed to be nationalist-inspired. Its leadership, which is largely Christian, reportedly rejects Communism. There has been no evidence that it has received any large-scale assistance from Communist sources.

Government Measures

The frontier uprising apparently has caused great concern in the inner councils of the Indian government. When the insurgent activity rose to an alarming point early in 1956, the government sent regular army troops to the scene with instructions to eliminate the resistance once and for all. After a year of concerted campaigning with a force of about division strength, however, the authorities have not met with notable success. In recent weeks disturbances have flared up again, this time in areas where the rebels had not previously operated. This expansion of their operations to the Assam plains and to Manipur, however, may result from the fact that the army and police have flushed some of the hostile tribesmen from their native hills.

Previous reports of contact with the Chinese Communists have never been confirmed, although a few Chinese of undetermined origin have been arrested in the area. Some Indian officials reportedly suspect that Communist China is providing the Nagas with clandestine financial support. While Peiping would probably regard the maintenance of such a potential base only a short distance from Chinese territory as in its long-range interests, the Chinese would be unlikely to jeopardize their present relations with New Delhi by furnishing the Nagas with substantial assistance.

Nehru has often dismissed the Naga movement's demands for independence as "absurd" and not to be considered in any event. While New Delhi did indicate recently a willingness to consider measures for increasing tribal autonomy within the constitutional framework, it refused to negotiate while the rebels continued their lawless activities.

Negotiations

Relations between the government and the Naga leaders now appear to have taken a new turn. General K. S. Thimayya, former leader of the Indian truce team in Korea and presently army chief of staff, was sent to Assam in order to negotiate with leaders of various Naga groups. A conference in Shillong on 20-22 April was attended by two

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other ranking generals, the governor and chief minister of Assam and 30 Naga leaders, most of whom belong to the separatist organization. The tribes represented, however, apparently were limited to those in the northern Naga Hills, and the leaders of the more belligerent elements in the south evidently did not participate. Consequently, the assurances of the tribal chiefs who were present that their areas would remain peaceful in return for government promises of relief and rehabilitation, do not appear to signify a settlement of the rebellion.

Despite recent signs of vitality, the die-hard Naga elements face several acute problems--the most important relate to food shortages, military supplies and recruiting. The movement has also suffered recently from factionalism: Phizo's leadership has been

openly challenged, a tendency which is likely to be accentuated by the authorities' recent overtures.

The government, on its part, is faced with a military campaign which seems to offer less prospect of success with each season, while at the same time the problem grows more embarrassing politically and more demanding financially. In addition, New Delhi's urgent program for developing and securing adjoining areas of the isolated and vulnerable Northeast Frontier Agency must be sharply curtailed while such a concentrated effort is necessary in the Naga sector.

These problems and the pattern of recent developments suggest that both sides in the conflict now may be ready to work out a compromise settlement.

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